

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Casa Grande Union High School District No. 82

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 8, 2009

Governing Board
Casa Grande Union High School District No. 82
1362 North Casa Grande Avenue
Casa Grande, AZ 85222

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Director of Support Services in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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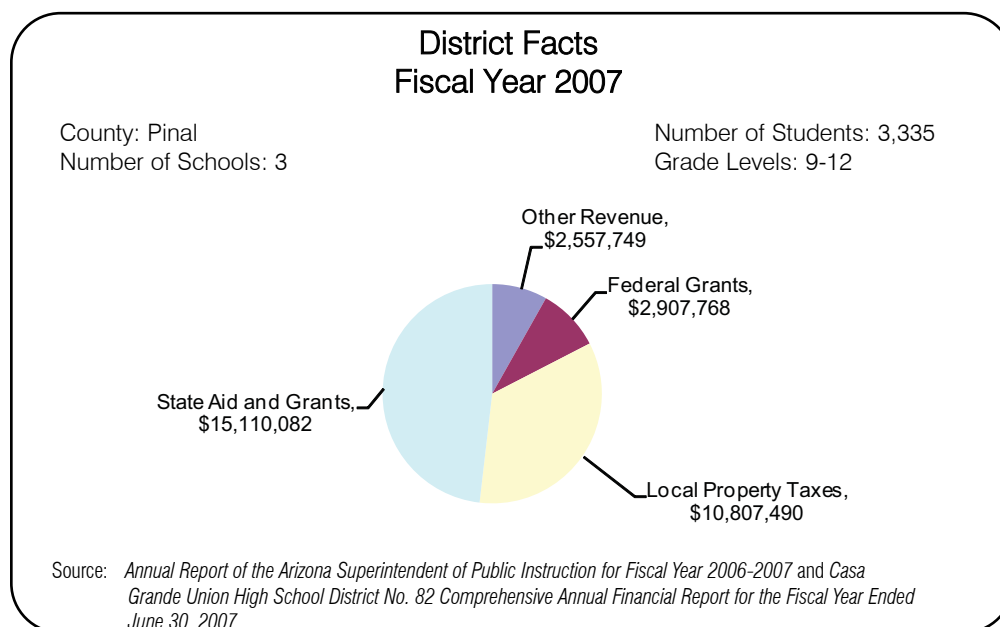
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INTRODUCTION

Casa Grande Union High School District No. 82 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$31.3 million it received in fiscal year (FY) 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District should strengthen its controls over competitive purchasing

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and the USFR guidelines. Specifically, the District did not always prepare and retain a written determination that the use of competitive sealed

bids was either not practicable or not advantageous prior to issuing requests for proposals (RFP). Also, the District did not always maintain a list of prospective bidders and did not include all required information in its RFPs. Additionally, the District did not always retain documentation for purchases made through

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

RFPs, including support for multiple awards that indicated why a multiple award was more advantageous to the District than a single award. Further, the District did not always obtain at least three oral or written price quotations for purchases that required them. Finally, the District did not always approve vendors as sole source before making sole source purchases, retain the written determination of why a vendor was considered a sole source, or limit the use of sole source purchases to only those purchases that cannot be made from any other vendor.

Recommendations

To strengthen controls over competitive purchasing, the District should:

- Obtain a written determination from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District before issuing RFPs.
- Compile and maintain a list of prospective bidders who have contacted the District requesting to be included on the list and also provide adequate notice of invitations for bids (IFB) and RFPs through advertising if the bidders list contains fewer than five vendors.
- Include all information required by the School District Procurement Rules in its RFPs and retain documentation of the procedures followed in the purchasing process.
- Document in writing the specific reasons that a single award is not advantageous to the District before contracts are awarded to multiple vendors.

- Obtain oral price quotations from three or more vendors for purchases costing between \$5,000 and \$15,000, and written price quotations from three or more vendors for purchases costing between \$15,000 and \$33,689.
- Only award a contract for a material, service, or construction item without competition if the District's Governing Board determines in writing that there is only one vendor from which to purchase the item and retain that written determination. Sole source procurement should be avoided, except when no reasonable alternative source exists.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

FINDING 2

The District's controls over expenditures should be improved

The District did not always ensure that purchases were authorized and within budget capacity or available resources before ordering goods or services.

The District spends public monies to purchase goods and services and reimburse employees' business-related travel expenses, so it is essential that the District follow procedures designed to help ensure that all expenditures are appropriate and adequately supported. However, the District did not have adequate controls over expenditures, as the District did not always record expenditures in the correct fiscal year and maintained inactive funds and funds with deficit cash balances at June 30, 2007. Additionally, the District did not always prepare or approve purchase orders to authorize purchases. Further, the District inappropriately reimbursed employees based on gasoline receipts rather than the miles driven multiplied by the Arizona Department of Administration (ADOA) established reimbursement rate.

Recommendations

To improve controls over expenditures, the District should:

- Ensure expenditures are recorded in the correct fiscal year. Goods or services received by June 30, but not yet paid, should be paid within the 60-day encumbrance period following June 30 and reported in the financial records of the prior fiscal year. Goods or services received after June 30 should be recorded and paid in the accounting records of the new fiscal year.
- Close all inactive funds by transferring their balances to the appropriate active funds.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures.
- Prepare and approve purchase orders for all goods and services prior to ordering them, other than those purchases specifically exempted in the USFR.
- Reimburse employees and board members for mileage at the standard rate established by ADOA.

USFR Memorandum No. 231 includes the maximum travel reimbursement rates that the Department of Administration establishes.

FINDING 3

The District should improve its controls over capital assets and stewardship items

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective. For example, the capital assets list included items identified with temporary tag numbers. In addition, the District did not maintain a complete list of construction-in-progress and did not update the capital assets list for disposals. Also, stewardship items on the District's premises were not always included on the stewardship list, and the District inappropriately included items that did not meet the definition of a stewardship item on the stewardship list. Finally, the District's reconciliation of capitalized acquisitions to capital expenditures was incomplete, and the District did not reconcile the current year's capital assets list to the previous year's list.

The District's capital assets and stewardship lists were incomplete, leaving equipment at greater risk of undetected loss or theft.

Recommendations

To improve controls over capital assets and stewardship items, the District should:

- Identify all capital asset and stewardship equipment items with a permanent tag number, or specifically identify the asset on the list by some other means, such as a serial number. Tags should be prenumbered, numerically controlled, and issued sequentially.
- Accumulate all costs incurred during construction periods in the construction-in-progress asset account until completion of the project, and then ensure the total cost is recorded for the asset on the capital assets list.
- Update its capital assets and stewardship lists at least annually for acquisitions, disposals, and transfers.
- Prepare and maintain a stewardship list that includes all district equipment costing between \$1,000 and \$5,000 with a useful life of 1 year or more. Review the items on the stewardship list and remove any items that do not meet that criteria.
- Reconcile capitalized acquisitions to capital expenditures and the previous year's capital assets list to the current year's list and resolve all differences.

The forms on USFR pages VI-E-13 and 14 may be used to document the reconciliation of capital asset additions to capital expenditures and the previous year's list to the current year's list.

FINDING 4

The District should ensure the accuracy of its accounting records and improve its financial reporting

The District did not report accurate financial information to the Arizona Department of Education (ADE).

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budgets, and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish these objectives. For example, the District did not reconcile its records of cash balances by fund to those of the County Treasurer in a timely manner and did not always include all funds in the reconciliations. In addition, the District did not always classify expenditures in accordance with the USFR Chart of Accounts. Further, the District's budgeted and actual expenditures reported on its AFR did not always agree with its most recently revised expenditure budget and accounting records, and the AFR did not include all required information. Finally, the District's extended school year route miles reported on its expenditure budget Work Sheet D did not agree with the District's Transportation Route Report for the prior year.

Recommendations

To help ensure the accuracy of its accounting records and improve its financial reporting, the District should:

- Ensure that the District's records of cash balances by fund are reconciled to the County Treasurer's records monthly and resolve all differences.
- Record all expenditures in accordance with the USFR Chart of Accounts.
- Update its accounting records for all revenues, expenditures, and necessary adjustments before preparing the AFR. In addition, the District should ensure that budgeted and actual expenditures reported on the AFR agree with its most recently revised expenditure budget and accounting records.

USFR §III provides guidance for classifying financial transactions.

- Assign a second employee to verify that the amounts reported on the AFR are accurate and in agreement with the District's accounting records and that all applicable information on the AFR has been completed before submitting it to ADE.
- Obtain the approved daily route miles, actual route miles traveled in July and August, and estimated route miles for June, used in completing the expenditure budget Work Sheet D from the prior year's Transportation Route Report (ADE TRAN 55-1).

FINDING 5

The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding because membership and absences were not always reported correctly.

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state equalization assistance and local property taxes. However, the District did not accomplish this objective. Specifically, the District did not always retain withdrawal forms, and withdrawal dates in the District's computerized attendance system were not always accurate. In addition, the District withdrew students for having ten consecutive unexcused absences without maintaining documentation that the absences had occurred, and the District did not always enter withdrawal information into its attendance system within 5 working days. Further, the District did not always properly report absences.

Recommendations

To help ensure the accuracy of its student attendance records, the District should:

- Retain documentation to support membership and absences reported to ADE, including student entry and withdrawal forms and attendance registers.
- Ensure that entry and withdrawal dates on the applicable forms agree with the entry and withdrawal dates in the District's computerized attendance system.
- Retain documentation to support the number of unexcused absences recorded at the time of withdrawal for students withdrawn for having ten consecutive unexcused absences.
- Record entries and withdrawals in its computerized attendance system within 5 working days of the entry or withdrawal and document the date entered.
- Record absences for high school students in accordance with the chart provided in ADE's *Instructions for Required Reports*.